

VZCZCXYZ0006
PP RUEHWEB

DE RUEHQQT #2539/01 3251957
ZNR UUUUU ZZH
P 211957Z NOV 07
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC PRIORITY 8089
INFO RUEHBO/AMEMBASSY BOGOTA 7116
RUEHCV/AMEMBASSY CARACAS 2771
RUEHLP/AMEMBASSY LA PAZ NOV LIMA 2150
RUEHGL/AMCONSUL GUAYAQUIL 3057

UNCLAS QUITO 002539

SIPDIS

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [ELAB](#) [EPET](#) [PGOV](#) [EC](#)

SUBJECT: DAS McMullen's Meetings with U.S. and Ecuadorian Business Representatives

Ref. Quito 2491

¶1. (SBU) Summary. WHA DAS Chris McMullen met, separately, with representatives of the U.S. and Guayaquil business communities. With the notable exception of City Oriente, which is facing the prospect of having its petroleum contract cancelled, the U.S. business representatives were guardedly optimistic. They are concerned about business uncertainty and possible measures that could be implemented by the upcoming Constituent Assembly. However, they reported that their businesses are doing reasonably well, and that they can work with some members of the government.

In contrast, the Guayaquil business representatives were more pessimistic, concerned that the Constituent Assembly will be anti-business and predicting economic deterioration in 2009. End summary.

U.S. Business Community Guardedly Upbeat...

¶2. (SBU) In Quito, DAS McMullen met with members of the U.S. business community on November 13. Robert Moss, AmCham President and owner of a corporate software company, opened the discussion by noting the uncertainty generated by President Correa's economic policies and possible changes in the upcoming Constituent Assembly. When the discussion returned to him a second time, Moss took a more upbeat approach, emphasizing that many on Correa's economic team are relatively capable and pragmatic. He noted his hope that after the Correa administration implements a number of economic changes, the economic environment will become more stable and predictable.

¶3. (SBU) Moss joined in with another member of the group in agreeing that economic decision-making is significantly better in Ecuador than in Venezuela, saying that GOE officials are much more practical and reasonable than Venezuelan economic officials, whom Moss called mere opportunists, looking out for their own interests.

¶4. (SBU) Jeff Sheedy, who owns textile, construction, and steel companies, said that his companies are doing well. He is now able to sell to the GOE, which he had not previously been able to do because of widespread corruption. He said demand for steel is strong because of increased government-financed construction projects. He allowed that new private sector construction projects are slowing because of uncertainty and difficulty obtaining financing, but added that there are still a number of ongoing construction projects.

¶5. (SBU) Sheedy said his principal concern is that the Constituent Assembly will likely tighten labor rules,

including the ability to hire temporary workers. He acknowledged that some employers have abused temporary worker provisions, but complained that the government, rather than prosecuting the violators, would likely scrap temporary worker provisions altogether. He said that he would join a group of business representatives meeting the following day with a Constituent Assembly delegate from Correa's PAIS movement to urge at least some flexibility in hiring temporary workers for seasonal surges.

¶ 6. (SBU) In response to a question, Sheedy said that large Ecuadorian business chambers have lost their credibility and do not have access to the Correa administration. However, he said, the GOE sees industry-specific associations as natural interlocutors and those associations find a ready audience with the GOE.

¶ 7. (SBU) Dean Rule, local manager for Hill's Floral, a U.S. flower company with operations in Ecuador, focused on the benefits of the Andean Trade Preferences Act, arguing that ATPA should be extended because it is doing what it was intended to do: creating jobs to diminish the attraction of narcotrafficking. He said that he had recently returned from a region in Colombia where employees in the flower industry make more than those working in coca production.

¶ 8. (SBU) Jeff Cadena, General Manager for General Motors Ecuador, said that GM has the largest share of the Ecuadorian automotive market. Indeed, GM has a larger market share in Ecuador than any other country, and therefore Ecuador is an important market for GM even though the economy is relatively small. He said that GM's sales have grown over the

past year, although in recent months sales have slowed because consumers have had difficulty obtaining financing as the banking sector tightened its loan criteria because of growing financial sector uncertainty.

...Except for City Oriente's Possible Contract Cancellation

¶ 9. (SBU) Kyle Ford, manager of City Oriente, a small petroleum operator, reviewed in a matter-of-fact way the likelihood that the government could initiate caducity, or contract cancellation, because of City Oriente's decision not to pay 50 percent of extraordinary revenues as required under a 2006 law (more details in reftel). Ford said that he is generally an optimist, but that he thought it would be difficult for City Oriente to avoid caducity, and therefore he is now focusing on City Oriente's arbitration case against the GOE. (Note: On November 19, the tribunal ruled in favor of City Oriente's petition and issued a decision on provisional measures prohibiting the GOE from implementing caducity or other actions that could affect the status quo.)

Guayaquil-based Economic Analyst Predicts 2009 Downturn

¶ 10. (SBU) McMullen met with members of the Guayaquil business community on November 15. According to Walter Spurrier, editor of Weekly Analysis and Guayaquil-based economic analyst, Correa's "Marxist" economic policies will likely lead to economic deterioration in 2009. While high oil prices and a weak dollar will keep Ecuador's economy afloat for the next year, Spurrier believes that declining oil production and economic instability following an eventual shift away from the dollar could mean trouble in the long term. "Given the political instability, foreign oil companies will not put good money after bad," he said. "Production will continue to drop." Spurrier added that "de-dollarization of the economy has to be high on Correa's list given his nationalistic leanings."

Constituent Assembly Unlikely to be Business Friendly

¶ 11. (SBU) Representatives of Guayaquil's politically influential Chambers of Commerce and Industry expressed concern about the perceived "anti-business" leanings of the

Constituent Assembly. According to Chamber of Industry President Miguel Pena, the Constituent Assembly is much less receptive to the business community's input than Congress was. "Correa will try to push legislation through the Assembly to bypass Congress, which was much more pro-business because so many representatives had their own companies," he explained.

Pena opined that the Assembly will likely raise taxes to pay for Correa's expensive social programs. He, like Spurrier, worried that the Correa administration was scaring off foreign investors. "His penchant for making seemingly capricious decisions is driving away foreign investment in industrial sectors that need imported equipment," Pena said.

¶12. (SBU) Comment. The economic and business environment in Ecuador remains uncertain, which alone can hamper business investment, as the Correa administration mixes tough rhetoric with a combination of pragmatic and unhelpful business decisions. So the mixed messages from

the U.S. and Ecuadorian business communities are understandable. The Guayaquil business community for the most part has viewed the Correa administration from a highly negative perspective and has largely been excluded by the government. Conversely, the U.S. business community has tried to work with the Correa administration when possible, hence its more nuanced message to

DAS McMullen.

¶13. (U) DAS McMullen cleared this message.